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**Meeting of High-Level Experts
on Africa's External Debt in respect of
the Industrial Sector**

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**DRAFT PROPOSALS BY THE EXPERTS OF THE STEERING COMMITTEE
FOR THE TWENTY-FIRST ASSEMBLY OF THE HEADS OF STATE AND GOVERNMENT
AT THEIR MEETING HELD IN ADDIS ABABA, ETHIOPIA, 2-8 MAY 1985
ON AFRICA'S EXTERNAL DEBT**

**Submitted by
the UNIDO secretariat**

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AFRICA'S EXTERNAL DEBT

1. The dramatic increase in the volume of Africa's external debt and the heavy debt-service burden are of grave concern to all the Member States. According to the most recent data published by the World Bank, total outstanding (including undisbursed) medium and long-term external debt for 46 African countries increased from 134.4 billion US dollars in 1982 to 136.8 billion US dollars in 1983. These amounts do not include the external debt of Angola, Libya, Mozambique and Sao Tome and Principe nor short term debt and IMF Credits. At the end of 1984, the total debt of African countries was estimated to stand at 150 billion US dollars and it is expected to exceed 170 billion US dollars by the end of 1985.

2. At the same time, total debt service payments (interest and amortization) increased from 12.9 billion US dollars in 1982 to 14.9 billion US dollars in 1983. These figures reflect only the impact of rescheduling exercises, and do not therefore correspond to what the total debt service would have been. For instance, projections by the World Bank indicate that debt service payments would be about 18.86 billion US dollars in 1984 and 20.44 billion US dollars in 1985. Unless immediate measures are taken by African countries in cooperation with the lenders to alleviate the debt-service burden, such projected payments will constitute serious difficulties for African countries.

3. In 1982 Africa's total debt was 51.0% of gross national product (GNP) and 59.0% in 1983. The total debt service, as a percentage of Africa's export earnings was 19.8% in 1982 and 27.4% in 1983. For some countries the debt service ratio is above this average whereas it is generally accepted that the average debt service ratio should not exceed 20% of export earnings.

4. It is noted that given the increasing importation of essential goods and services, especially industrial commodities, indispensable to their accelerated economic development, African countries will continue to borrow in order to supplement their domestic resources. This constitutes one of the major root causes of the African external debt.

5. The causes of Africa's huge external debt and debt-service burden are both internal and external.

6. The internal causes are in particular the following:

- (i) inadequate and weak economic structures, in particular weak industrial base;
- (ii) outward looking economic system and dependence on the export of a few raw materials and commodities;
- (iii) deteriorating agricultural and food production that lead to increased food imports;
- (iv) poor design, negotiations and ineffective execution and monitoring of projects that lead to increased costs;
- (v) low level of domestic resource mobilization and lack of provision for local counterpart cost;
- (vi) deficits in national budgets as a result of insufficient national resources for executing national development plans;
- (vii) natural disasters and economic destabilization activities that distort economic projections and necessitate diversion of resources;
- (viii) lack of proper understanding of international financial mechanisms;
- (ix) lack of effective coordination at the national level and inefficient monitoring of foreign commitments.

The external causes include:

- (i) deteriorating terms of trade and the consequent reduction in total export earnings;
- (ii) sharp increase in real interest rates, especially on commercial loans; which averaged 7.7% in 1982 and 8.2% in 1983;
- (iii) deteriorating terms of borrowing, including reduced grace and repayment periods;
- (iv) decreased flows of concessional resources to African countries;
- (v) adverse effects of exchange rate fluctuations of the world's major currencies;
- (vi) inflated contracts and other abuses as a result of activities of trans-national corporation;
- (vii) decreased net inflow of resources.

Measures to tackle Africa's External Debt Problem

7. African countries recognise that external debts are obligations which they have contracted and which they must honour. In view of their special situation as compared to other developing regions, the countries will need longer grace and repayment periods and increased concessional resource flows in order to restore growth and thus be able to meet their debt-service obligations. Specific measures are, therefore, required to be taken at the national, sub-regional and regional as well as the international levels, in the short, medium and long term.

8. Short-term measures

(a) At the National Level

- (i) the countries which have not done so, should consider establishing a national machinery for the management and rationalization of external debt, including the coordination of loan policies, monitoring loan utilization repayment schedules and advising generally on external borrowings, including foreign exchange budgetting, loan ceilings, appropriate terms and conditions and loan utilization;
- (ii) an urgent review of projects should be undertaken with a view, among others, to ascertaining which of them should be scrapped and to renegotiating those whose poor performance can be traced to their design, the terms and conditions of the initial loan agreement;
- (iii) increased effort should be deployed to mobilize domestic resources, in particular, domestic savings so that external (borrowed) resources would only supplement national resources;
- (iv) domestic and foreign resources should be directed at projects generating or saving foreign exchange, without neglecting projects designed to provide basic social services;

- (v) a crash programme should be formulated and implemented with the objective of increasing productivity in all sectors;
- (vi) every effort should be made to eliminate external financing of deficits on recurrent national budgets;
- (vii) African countries which have not yet done so should enact legislation governing foreign direct investment;
- (viii) a thorough inventory should be made of all external debts contracted by the State, public, semi-public and private institutions to determine more accurately the quantum of external debt, the purpose for which the debt was contracted and how it was to be paid as one way of determining the amount of foreign exchange reserves to be allocated for external debt servicing incurred by the public and the private sectors, so as to avoid the accumulation of debts and arrears beyond the capacity of the countries to repay;
- (ix) African countries should control the external borrowing practices of transnational commercial banks, discount houses, insurance companies as well as other local commercial banks so as to halt the excessive drain of resources from Africa by transnational corporations. Immediate legislation should be enacted, where this does not exist, requiring such companies to consult the Government before deciding to borrow externally;
- (x) African countries should review and if necessary adopt new investment policies that would inter alia set out the priorities for foreign exchange allocation, set the conditions for foreign private investment, equity participation etc., as well as provide for readjustment measures for a sound economic base;
- (xi) African countries should improve their capability and capacity for project/contract negotiation in order to secure the best term and conditions, as well as their capacity for consultancy;

(b) At the Subregional Level

- (i) within the framework of African solidarity African countries with net reserves should recycle part of these surplus funds in Africa;
- (ii) African countries should utilize seminars and workshops organised by subregional and regional organisations such as the African Centre for Monetary Studies (ACMS) for the exchange of information on loan negotiations and debt rescheduling;
- (iii) A Conference of Ministers of Finance should be formally established to meet regularly to deal with external debt as well as other monetary and financial issues;
- (iv) the existing subregional payments and clearing arrangements should be strengthened towards promoting increased intra-African trade thereby reducing the need for foreign exchange and hence external borrowing;
- (v) a new system of incentives, including national investment codes that discriminate in favour of African investors, should be instituted immediately to encourage African individual private investors, to invest their resources in other African countries, either on a bilateral basis or through the existing subregional financial institutions. This would not only improve the liquidity of the borrowing countries thereby reducing the need for external borrowing, but would also promote intra-African monetary co-operation as envisaged in the Lagos Plan of Action and the Final Act of Lagos;
- (vi) all regional and subregional development finance institutions should reduce the foreign exchange component of the local contribution to on-going and new projects they finance for member countries;
- (vii) a review of subregional or multinational projects should be undertaken with a view to determining which of them should be scrapped and which should be retained.

(c) At the International Level

- (i) an international conference on Africa's external debt should be organised after a careful preparation at all levels with a view to develop a suitable framework for tackling Africa's external debt within the context of Africa's economic development needs;
- (ii) the 21st OAU Summit should request the current Chairman and the bureau to make the necessary contact with the multilateral institutions and the major creditors with a view to an early organisation of the conference;
- (iii) African representatives in the Development Committee of the World Bank and in the Interim Committee of the International Monetary Fund as well as the African Group in these institutions, should stress the need for effective structural adjustment measures in order to ensure an early resumption of growth of the African economy;
- (iv) The Secretary-General of OAU, the Executive Secretary of ECA and the President of ADB should initiate the necessary preparations in order to ensure the success of the Conference;
- (v) the international development finance institutions should reduce the foreign exchange component of the local contribution to on-going and new projects they finance in Africa;
- (vi) increased transfer of concessional financial resources (including grants to the Least Developed Countries) from both multilateral and government lenders in recognition of the specific problems of African countries; and to increase their programme lending especially to the Least Developed Countries,

- (vii) debt rescheduling provides immediate relief to the debtor countries. To be effective, rescheduling should be on a multi-year basis over a period of 15 years with a minimum grace period of 5 years, and debt restructuring that follows rescheduling should not be at higher interest rates;
 - (viii) the World Bank should raise the ceiling to enable more African countries to qualify for IDA credits;
 - (ix) the IMF should reactivate its Trust Fund;
 - (x) the developed countries should immediately implement UNCTAD resolution 165(IX) which calls for retroactive adjustment of the terms of the public debts of the developing countries, including their partial or total cancellation.
9. Medium and Long-term Measures
- (a) at the National Level:
 - (i) careful attention should be given to careful project identification, design, preparation, execution and efficient management;
 - (ii) a more rational utilization of external credits and loans should be made through an immediate review of the national development plans to introduce short-, medium- and long-term policies on external debt management mechanisms linked with productive ventures such as proper project selection, preparation, implementation, monitoring and evaluation. This should also ensure that any loans previously contracted should, where possible, be re-linked with the viability and profitability as well as the country's ability to repay past, current and future debt obligations;
 - (iii) effective measures should be taken to reduce the external dependence of African economies by producing locally the essential goods and services so as to reduce the effects of adverse international development over which African countries have no control.

(b) At the Subregional and Regional Levels

- (i) African parastatal organizations should be encouraged through appropriate incentives, to participate in sub-regional joint ventures. This would improve the liquidity of the countries thereby reducing the need for external borrowing;
- (ii) subregional and regional African development finance institutions are also urged to increase their financing of subregional projects so as to assist member countries in alleviating the external debt burden. They should also play an increasing role in the identification and preparation of sound and economically viable investment projects in the member states;
- (iii) the political will for South-South Cooperation should be intensified particularly in the field of monetary cooperation.

(c) At the International Level

- (i) the debt service should not be allowed to exceed - 20% of the export earnings or 30% of Gross National Product (GNP) of each country;
- (ii) the international community is urged to finally implement UNCTAD resolution 222(XVI) on long-term features for debt renegotiation.